MEETING
OF THE
GOVERNING BOARD OF
CHICAGO DEVELOPMENT FUND

City Hall - Room 1000
121 North LaSalle Street
Chicago, Illinois

Tuesday, November 13, 2012
10:12 a.m.

Mr. Andrew Mooney, Chairman
Alderman Carrie Austin
Alderman Thomas Tunney
Mr. Rafael León
Ms. Lois Scott
Ms. Tracy Sanchez
Mr. Tony Smith
Mr. Ryan Hegarty
Mr. Mitchell Holzrichter
Mr. Michael Jasso
Mr. Chester Wilson
Mr. Reyahd Kazmi

Reported by: Nick D. Bowen
CSR No. 084-001661

CHAIRMAN MOONEY: Let's convene. We will also hold off on the approval of minutes. Why don't we start then with the status of prior projects?

MR. SMITH: Sure.

So here just a quick list of all the transactions that have closed since CDF's inception.

So so far in 2012, we're still sitting with four transactions closed. We do have two in closing that were both approved in the last meeting in September, the ACE deal and the Shops and Lofts deal.

(Enter Alderman Austin.)

CHAIRMAN MOONEY: Since we were just starting, why don't we go back to the top of the agenda. We have a quorum; Alderman Austin here, Alderman Tunney here, Lois Scott here, and Andy Mooney here.

Okay. Let's -- I would take a motion to approve the minutes of the September 11th meeting.

ALDERMAN AUSTIN: So move.

MS. SCOTT: Second.

CHAIRMAN MOONEY: Moved and seconded. All in

favor say yes.

(Chorus of ayes.)

Third item on the agenda is the status report, which we were just getting into.

So, Tony ...

MR. SMITH: Thank you.

So just running through the 16 transactions closed to date here, four so far have closed in 2012: Oakwood Shores Terraces, Chicago Family Health Center, Swedish Covenant Hospital, and Shankman Orthogenic and Hyde Park Day School.

We do have two transactions beyond this list that are in closing that were both approved at the last meeting. That's the ACE Solar transaction and the Shops and Lofts at 47th transaction. Those are both still pending, but going smoothly.

Here we see a map of those closed transactions to date, the 16 deals, as they distribute across the City of Chicago.

As far as construction status, basically anything that was approved prior to 2012 is complete, substantially open. Truong Enterprises had a grand opening back in September.

I think Treasurer Neely attended or was at least slated to attend. It's a good looking facility at 22nd and Halsted -- or 23rd and Halsted.

And then anything that was approved in 2012 is under construction. I just drove by the Mercy Oakwood Shores site a couple days ago, and it's -- the building is up. It looks like a substantial structure already. The other projects are earlier on in their construction.

As far as --

CHAIRMAN MOONEY: I just want to make sure and point out that everyone has copies, hard copies of what Tony is showing you. We're on page -- I'm not sure the pages are numbered, but on the Deals Summary. Okay. Tony.

MR. SMITH: Thank you.

Just an updated breakdown of the closed transactions by project type and by dollar amount. So CDF to date has had heavy weighting in the community facility space; so nonprofit-sponsored facilities providing services essentially to neighborhood residents, with five transactions in education, four in healthcare, and two in other.

So here we have job training and the

vast array of services provided by the Kroc Center. And then five industrial transactions.

In terms of dollar amounts, the education deals are still the heaviest sector, 78 million. The other community facilities, the lightest sector, at 29 million.

In terms of overall status of CDF's tax credit allocations, this graph depicts the obtaining of allocation by CDF. Each of the different colors represents a different round of allocation that CDF received starting in 2007, and then you see the cumulative amount of allocation that CDF had at any given time and its utilization rate. I guess the general pattern being that CDF has had credits consistently since its inception and has gotten faster at utilizing allocations essentially.

So 196.3 million has been funded to date. That's because CDF prefunded the Shops and Lofts transaction to meet a Treasury deadline. That happened back on October 29th. So at this point there's 41.7 million of allocation remaining unfunded.

In terms of looking at the breakdown

of that allocation, there's 238 million in total allocation authority that has been received to date by CDF. 184.6 million has been closed and pushed down to the project in terms of disbursed loans. The Shops and Lofts transaction prefunding is another 11.75 million on top of that that is funded down to CDF, but not loaned to the project yet. So 18 million currently in closing; that includes the Shops and Lofts amount and the ACE Solar amount.

In terms of allocation being considered today for transaction, 9 -- up to 9 million for the SCR Transportation deal. We have 12.3 million sort of tentatively sitting there as being available for the Roseland Plaza transaction since it's in restructuring. Northern Trust is still the proposed senior lender and tax credit investor, and they're still in heavy discussions with the developer. The deal would need about 12.3 million in credits if it were to go forward. So those credits aren't committed currently, the 12.3. Those would require further board action. But in terms of sort of mentally setting credits aside, that's where we're sitting today.

So assuming those 12.3 do end up

going to Roseland Plaza and the 9.0 million -- up to 9.0 million that are on the table for SCR Transportation are approved and closed, that will leave 14.1 million of uncommitted allocation. So getting another allocation would be quite nice for CDF, I guess would be the way to sum it up.

Jumping to the next slide, we have a new illustration of the job impacts that CDF has created to date. Seems like there's a lot of interest in that based on the questions we're getting from the board in each meeting, so we wanted to summarize it in a new way.

So the red bars represent the projected total jobs that CDF's borrowers have said that they anticipate creating when they're fully stabilized. The blue bars represent actual outcomes that have been measured to date based on CDF's periodic check-ins with its borrowers.

So if you look at -- up through Truong Enterprises, sort of in the middle of the chart, those are the projects that are complete and open and actually have measurable job impacts to report at this point.

So in aggregate, those transactions

project 1,078 full-time equivalent jobs, and 86 percent of that number, or 924, full-time equivalents have actually been created. Many of those projects have opened recently, and they're still in the process of ramping up the full operation. So we do anticipate that they'll meet or exceed in aggregate their projected targets they reported to CDF.

So that works out to about 77 jobs per project on average, about 24-1/2 jobs per $1 million in net New Markets benefit. So it's about $40,000 per job.

And these jobs are fairly high quality. The vast majority are full-time; I think it's well over 90 percent created to date are full-time. And the average salary among all the jobs is about $45,000 a year.

You see also on the right side --

ALDERMAN TUNNEY: Excuse me.

MR. SMITH: Yes.

ALDERMAN TUNNEY: When you're talking about this, this 45,000, does that include health benefits?

MR. SMITH: The vast majority of the jobs

have benefits as well.

ALDERMAN TUNNEY: And is that in the 45 --

MR. SMITH: No.

ALDERMAN TUNNEY: -- or is that 45 plus health?

MR. SMITH: That's in addition to that.

ALDERMAN TUNNEY: Because that's becoming huge as moving forward with the Affordable Healthcare Act and how that relates to compensation, benefits, and taxes, you know. So it's just interesting, you know, that this is going to become a huge issue in the next couple years.

MR. SMITH: We do see typically somewhere in the neighborhood of 6 to $7,000 of benefits per employee layered onto that salary from the borrowers that do offer benefits, which is the vast majority.

MS. SCOTT: And if we were to look at how many retained versus created on that chart, what's the ballpark? I mean, I know that Testa was mostly retained, right?

MR. SMITH: Yes. I'm sorry. I don't have that number at my fingertips.

MS. SCOTT: What's your gut feeling? I mean --

MR. SMITH: I think it's probably --

MS. SCOTT: 50/50?

MR. SMITH: Yeah, 50/50 or maybe 60 percent retained, 40 percent new, somewhere in that range. We'll definitely give you an update on that. Sorry it's not on here.

And then in terms of transactions that are pending -- or, I guess, first going to the right of the Truong transaction, these are all projected job outcomes for Mercy Oakwood Shores, Chicago Family Health Center, Swedish Covenant, and Shankman Orthogenic. Since these projects are all under construction, we don't have actuals yet, but there's a significant number of new jobs projected from those deals.

And then further to the right, we have the deals that are in closing right now, the ACE and Shops and Lofts. And then on the far right, we have our pending deal today, SCR Transportation.

MS. SCOTT: Are why are there no jobs with ACE?

MR. SMITH: Because it's a solar installation on a number of rental housing buildings. ACE has

two employees at this point. It is -- it's kind of a pilot project to launch an energy service company for affordable housing.

MS. SCOTT: I thought there would be some maintenance jobs or something created with it; no?

MR. SMITH: There may be. We're not counting those in the impact.

MS. SCOTT: Okay.

MR. SMITH: So that's definitely something -- if it scales over time, we'll definitely have measurable outcomes.

There's also interesting construction impacts there where it's teaching reconstruction methods to local firms. But we don't -- we're not -- we're only looking at permanent jobs in this chart.

ALDERMAN AUSTIN: And where is Chicago Family Health being constructed at?

MR. SMITH: It's 115th and --

MR. WILSON: It's right by the Sherwin Williams plant.

MR. SMITH: Yes.

ALDERMAN AUSTIN: Oh.

MR. SMITH: Exactly.

ALDERMAN AUSTIN: So off the expressway?
MR. SMITH: Right.
ALDERMAN AUSTIN: Yeah, that's right off -- okay.
MS. SANCHEZ: 115th and Lawrence?
MR. SMITH: 115th and Lawrence, that's what it is. Thank you, Tracy.
Yeah, Sherwin Williams actually gave them that piece of land for their parking lot.
ALDERMAN AUSTIN: It's clean and everything?
MR. SMITH: Yes.
ALDERMAN AUSTIN: Who cleaned it?
MR. SMITH: I think it was clean when they received it.
ALDERMAN AUSTIN: Really? That's great. That's great. Okay. Thank you.
MR. SMITH: In terms of prospects for additional credits, Chicago Development Fund, the day after -- or actually the day of the last board meeting did submit its most recent application for more tax credits, requested $100 million, the maximum in that 2012 round.
This is definitely contingent on Congressional action to extend the program. So the

New Markets program, as far as legislative authority, expired at the end of 2011, and CDF received an allocation from that final bucket of authorized credits.

So New Markets are among the many, many programs -- you know, wind power, production tax credits, all sorts of -- the AMT patch, I mean, there's all sorts of tax issues that are wrapped up in the fiscal cliff debate that's going on now.

It's not within my purview or ability to predict what's going to happen in the next few weeks. But, you know, generally the signals are pretty positive for New Markets. There's bipartisan support for the program.

Prior to the elections, 12 freshman House Republicans had signed a support letter for reauthorization. I don't have a count yet of how many of them got reelected or not. But it definitely has, you know, support on both sides of the aisle. There have been a lot of great outcomes in many, many Congressional districts from the program. And it's a relatively small, inexpensive program. So reasons to be optimistic, but reasons to be watchful as well.

CDF did meet its minimum QEI deployment thresholds to be eligible for this round. So we see here on the middle of the chart on this page the minimums that were needed to be closed in order for CDF to be eligible for this allocation round; and then on the right side what CDF has actually achieved.

So if you may recall, at the last meeting, this board approved a prefunding of the Shops and Lofts transaction specifically to meet these targets, and that happened on October 29th, two days before the deadline.

In terms of potential projects in the pipeline, the pipeline remains pretty extensive, pretty robust in terms of total demand for allocation. 24 projects currently in discussions or some form of structuring, closing application. So 289.3 million in approximate demand for tax credits from those 24 projects.

ALDERMAN AUSTIN: But the grocery chain has not increased that much, though, has it?

MR. SMITH: Yeah. Correct. On the next slide, grocery, there's only three grocery projects out of that total number.

ALDERMAN AUSTIN: Is it a -- is it -- do you know if there's a reason why it's struggling so?

MR. SMITH: I think -- you know, I've talked to a number of folks in the New Markets industry. Grocery operators are generally difficult to do New Markets deals with. They tend to be very cautious about their financing structures. They can be very focused on operating their business as opposed to the brain damage associated with programs like New Markets.

Nonprofits, on the other hand, are very used to jumping through a lot of hoops to get money; so they've been heavy users.

But there's definitely a lot of action in the grocery sector across the country in New Markets. There's a lot of policy interest in the healthy foods and food desert issue, so ...

ALDERMAN AUSTIN: 'Cause that's my reason for asking, because in the majority of the food desert, with just three, and it's at least 20 that I can count in regards to deserts, and development with three just doesn't seem to cut it very much. I'm trying to think of how we can give them incentives in order to utilize CDF funds.

MS. SCOTT: Who are the three from? Are they from big corporate grocery chains, or are they -- because my guess is they come -- a big chain like a Dominick's has got its own financial stuff that they do at a corporate level; so finding an individual project for one neighborhood, they're going to be more reluctant. Can we find smaller companies that are willing to sort of --

MR. SMITH: You know, we're trying to do some outreach to -- we had some discussion with Pete's Produce about their Madison and Western project.

MS. SCOTT: Yes. Yeah.

MR. SMITH: They ended up deciding, you know, couldn't be bothered essentially for New Markets.

We are trying to get in contact with Cermak Produce.

So, yeah, there's a couple of independents that seem like decent prospects in the Chicago region. We have spoken to Save-a-Lot and Supervalu at the corporate level.

I think there may be more opportunities with local franchisees. So we're trying to get plugged into that. In fact, I'd like to talk to you, but there's a developer active in

your ward that may be doing some of that. So we should talk.

ALDERMAN AUSTIN: That's why I'm asking, because --

MR. SMITH: Yeah.

ALDERMAN AUSTIN: -- the bigger guys don't seem to want to really do anything.

MS. SCOTT: Yeah.

ALDERMAN AUSTIN: But then when they franchise off, then you get more bang for the buck.

MR. SMITH: Right.

ALDERMAN AUSTIN: And hope that we, you know, can jumpstart that with the one that we have, you know, to do more, because even with that one that we have, we still need even more of that, because I don't have anything on my east end, which would also benefit Alderman Bill and myself.

MR. SMITH: Right. Right.

Kroger, as a chain, has embraced New Markets. They've actually invested in a couple deals themselves.

ALDERMAN AUSTIN: How about Meijer's? They don't -- they're not interested?

MR. SMITH: I've not heard of a Meijer's

transaction.
CHAIRMAN MOONEY: Meijer's hasn't shown any --
ALDERMAN AUSTIN: Interest?
CHAIRMAN MOONEY: -- interest in the city at all.
ALDERMAN AUSTIN: At all?
CHAIRMAN MOONEY: Yeah.
ALDERMAN AUSTIN: At all?
CHAIRMAN MOONEY: At all, yeah.
MR. SMITH: As you recall, Aldi was directly talking to CDF back in '09 and then decided that there was a risk that this might be considered a federal bailout and that they'd get negative publicity, so they backed away.
MS. SCOTT: And the Germans always answer to corporate level, so they don't want individual project finance deals. Just as a rule --
MR. SMITH: Right.
MS. SCOTT: -- German companies always do that.
MR. SMITH: Yeah, the collateralization that you were --
MS. SCOTT: Right.
MR. SMITH: -- that's part of the New Markets

structure --
MS. SCOTT: Doesn't work for corporate.
MR. SMITH: Not easy.
MS. SCOTT: We just have to have different incentives, I guess, right?
CHAIRMAN MOONEY: Well, we try. I mean, if there's any grocery store interest, we'll give them the land, we'll give them the TIF, we'll give them the --
ALDERMAN TUNNEY: Well, you know, the head tax eliminated is big --
MS. SCOTT: That is helpful.
ALDERMAN TUNNEY: -- for grocery stores.
CHAIRMAN MOONEY: It is.
ALDERMAN TUNNEY: It is big for grocery stores. So, I mean --
ALDERMAN AUSTIN: And that was the drawback before, and now that that's eliminated, you know, what do we need to prod you now?
MS. SCOTT: Yeah.
ALDERMAN TUNNEY: Well, I've always said in our lifetime, again, we're going to be paying for people to hire people.
And this is -- again, my concern as

an employer, this healthcare bill is not affordable. So the question is, you know -- and it's very complicated. So, I mean, it's really going to be interesting to see how companies will hire and what kind of people they'll hire and what kind of incentives they will have to hire, because -- you know, we just had our renewal for our healthcare. It went up 30 percent. And upon double digits. When we're setting these healthcare costs or -- kind of the arc is -- it is whatever, it's not -- and the reality, it's not doing it.

I mean, we've got a family of four; their healthcare premium now went from 15 to $1900 a month. They only make $40,000 a year. So it's hard -- the employee can't afford it and --

MS. SCOTT: And the employer can't afford it, right.

ALDERMAN TUNNEY: -- the employer can't afford it. So what are we going to do? You know. And then they say, Well, there's paperwork for those that make under a certain income. Well, there's too much paperwork in it now, to be honest with you, you know, because the employer backs in saying, This is how much I can afford on

healthcare, and that's what you get.

Now, you know -- so it's going to be -- I'm really intrigued by the implementation of this and how -- what we do as employers and what we -- how we incentivize employers to keep those doors open and hire these people with good jobs. Good job and good benefits. It's really -- it's going to be an exciting time. But rather do it under the Democrats. Rather do it under the Democrats.

CHAIRMAN MOONEY: Okay. Tony.

MR. SMITH: (Indicating.)

CHAIRMAN MOONEY: Oh, okay.

Any questions about any of the report?

ALDERMAN TUNNEY: And I won't talk any more about healthcare right now.

MS. SCOTT: Very well done.

ALDERMAN AUSTIN: No, it's okay. I mean, it affects us all. It's not something that just -- you know, it affects all of us.

MS. SCOTT: In interest of fact, past projects, though, Tony, your reports are very helpful. I feel like I have a good handle, and I

could -- it's enough detail that I know what is going on, but not so much I feel like I'm drowning. So whatever you're doing, I appreciate it. It works very well with my understanding --

CHAIRMAN MOONEY: Good.

MS. SCOTT: -- with what's happening.

MR. SMITH: We'll add a little more detail on retained versus new as well as benefits versus not. But thank you.

CHAIRMAN MOONEY: Okay. Let's move on then to SCR Medical Transportation.

MR. SMITH: Very apropos of our discussion about jobs and healthcare, by the way.

ALDERMAN TUNNEY: Well, we think the healthcare industry has jobs.

MS. SCOTT: Yeah, lots of them.

MR. SMITH: So SCR is -- it's a local Chicago-based firm that's been around since 1986. They're based in the Burnside neighborhood down at 88th and Greenwood. You may -- much like Testa Produce, their vehicles are kind of ubiquitous. You probably see their Chrysler minivans that are configured as paratransit vehicles all over the city.

So the project in question here is the site preparation and construction of a new 18,000 square foot building to expand their existing facility at 88th and Greenwood.

So this would be a number of things for the company, but primarily expanding their call center operations. There's a lot of call coordination that goes into paratransit scheduling. But also increasing their vehicle capacity and their administrative office capacity.

This is a moving -- the deal's moving along fairly well. It's projected to close in early 2013.

Here's an aerial showing the project site contact. SCR's already located right next door to the proposed expansion site in a kind of industrial cluster here down at Burnside neighborhood just south of 87th Street.

So they're primarily a paratransit provider. They do provide medical transportation as well to the VA Hospital as well as for private clients. But PACE is their primary contracting party; that's about 85 percent of their revenue.

They have a 300-vehicle fleet

primarily minivans. They already employ 680 full-time equivalent employees. 75 percent of that employee base live in Chicago, and 91 percent of that Chicago resident base live in low-income census tracts, primarily South Side.

MS. SCOTT: Wow. That's great.

ALDERMAN AUSTIN: That's super.

MR. SMITH: So they -- their passenger count 1.67 million that are provided over 1.3 million trips. So once in a while, you have multiple riders per trip. Usually not.

Primarily the PACE ridership base -- or the paratransit ridership base they serve is also low income since they -- their geography is the South Side of Chicago first and foremost. They do provide some service in the south suburbs as well.

And they're kind of bursting at the seams. Paratransit demand in general is going up due to an aging population primarily. But SCR is also performing well and anticipates that they may be able to compete for an additional share of PACE business, which is -- it's re- -- contracts are relet periodically.

MS. SCOTT: How long is their contract with PACE?

MR. SMITH: I believe it's a three-year contract.

MR. HEGARTY: Goes through 2014. The original contract was three years, and they've had three extensions. So it's up for renewal in 2013, 2014.

MR. SMITH: Right.

MS. SCOTT: If they lost that contract, though, this is -- everything's gone.

MR. SMITH: Absolutely. That is precisely the --

ALDERMAN TUNNEY: Or change the rules.

MR. SMITH: Right.

ALDERMAN TUNNEY: Or the reimbursement.

MR. SMITH: Yeah.

MS. SCOTT: And the future of PACE is far from certain too. It's a little scary.

MR. SMITH: This particular service they provide, it seems like the outlook is stable since this is a mandated function of transit agencies under ADA. But certainly we've been in a lot of discussion with Bank of America, their senior

lender, about the concentration of risk and the PACE contract. And there's a covenant to the loan if you don't get that contract, then you're in default. So it's definitely the issue in this contract.

CHAIRMAN MOONEY: I would point out, though -- or should mention too this is a minority-owned company. This is exactly the kind of company I think that we want to use New Markets for.

MS. SCOTT: Oh, yeah.

CHAIRMAN MOONEY: It does have a risk, but ...

MS. SCOTT: They all have risks. I'm just saying it's a little scary.

CHAIRMAN MOONEY: Yeah.

MR. SMITH: Sure. And we've looked at available reports on their performance relative to the other PACE contractors, and they seem very solid. In fact, their weakest segment is their call center operations. So it seems like they're really addressing that with this project.

MS. SCOTT: And their costs in comparison to other PACE --

MR. SMITH: Right in line.

MS. SCOTT: So it's right in line?

MR. SMITH: Yeah.

MS. SCOTT: So it's not like they're -- okay.

ALDERMAN TUNNEY: What is the ratio of this medical versus PACE? What is --

MS. SCOTT: He said it's 85 percent of their revenues, right?

ALDERMAN TUNNEY: Comes from what?

MS. SCOTT: PACE.

MR. HEGARTY: 85 percent comes from contracts with PACE. Then they have relationships with VA hospitals. And they do some private work as well.

ALDERMAN TUNNEY: Might be -- might be an expansion opportunity on the other side.

MS. SCOTT: Could be.

MR. HEGARTY: Yeah. Then they have subsidiaries that are -- or companies related that are doing more private contracting work, and they're expanding pretty rapidly. But that's not really part of this necessarily.

MR. SMITH: So the impacts from the transaction, I mean, first and foremost, it's expanding an active, successful business in a pretty distressed area. The census tract in question has median family income that's only

47 percent of the regional median, unemployment rate of over three times the national average, and a poverty rate of over 30 percent.

MS. SCOTT: And that's where they're -- that's where this building will be?

MR. SMITH: Correct.

MS. SCOTT: Okay.

MR. SMITH: Yes. So they're adding a hundred new FTE jobs projected over the next couple of years in that specific location. These jobs are also pretty intriguing for New Markets purposes because they're accessible jobs. The barriers to entry here are not tremendous in terms of required education. You do have to have a clean driving record. You can't have a felony more recently than five years ago. You have to be drug-free. But that's really the basic qualification. So really accessible jobs.

ALDERMAN AUSTIN: And a valid driver's license.

MR. SMITH: Correct. Yes, you have to know how to drive just a little bit.

CHAIRMAN MOONEY: And they do the training, right?

MR. SMITH: They do. Yeah. $2800 per employee is the typical training expenditure. So that includes special training on how to handle elderly and medically disabled or special needs passengers as well as getting a commercial driver's license. So a highly transferable skill set to other fields if you have that CDL license.

So they believe they're going to expand their service by 15 percent over the next several years to 1.9 million passengers per year. They're going to purchase additional vehicles. In fact, they have to reinvest in their fleet pretty frequently. That's part of their sort of capital expenditure needs that we're indirectly supporting with the CDF transaction.

As Commissioner Mooney mentioned, President and Chairman Mooney mentioned for CDF, it's a minority-owned business; in fact, named the Outstanding Business of the Year by the Illinois Black Chamber of Commerce recently. And they spend about $2 million a year with minority, women-owned, and DBE companies in terms of their purchasing as a business.

The deal also has some sustainability

features in terms of cleaning up a vacant, foreclosed site. That's what they acquired to do this expansion. It's a LEED building with a green roof and a rain garden. And they actually recently launched a pilot using compressed natural gas vehicles, only a few in their fleet, but so far it's going well.

In terms of the proposed transaction, we have a little bit of a range in terms of the amount of allocation CDF would provide. Basically, the appraisal, which is pending, is going to be a major factor in this transaction. We've seen this pattern where owner-occupied facilities over the last couple of years were appraised out below cost. So, in turn, banks have lending limits that they're going to need to put in effect. In this case, Bank of America will only lend 80 percent of the appraised value. That will almost certainly be less than the project cost. So, in turn, that's going to put pressure on a New Markets Tax Credit equity and perhaps some owner's equity needed to come into the deal.

So the range that's proposed here of 7 to 9 million would be basically calibrated to

make sure that they can build both phases of their project, 8849, which is the new building, and then they want to renovate 8801 South Greenwood, which is their current building.

Bank of America is the proposed New Markets investor. Lot of asterisks on this page since B of A is not an entity CDF has worked with yet, and they have a somewhat different structure, kind of a more classic structure from the early days of the New Markets program in terms of how the debt flows through. So we're working through some of the details on what the indemnities would need to look like from CDF to the investor and what sort of rights and remedies in a foreclosure situation. So hopefully we'll get there. So far, so good, but the --

MS. SCOTT: But B of A is their current lender, corporate lender?

MR. SMITH: Correct. Yes.

And so we're basically -- we're seeking flexibility to do it with B of A as the primary possibility, but as a backup, if the lender ends up being someone else that CDF's worked with before, that the approval would cover that too.

And that is what I have on the deal.
CHAIRMAN MOONEY: Okay. Thank you, Tony. Very good.
Any questions or comments?
MS. SCOTT: It sounds like a terrific project.
So if they -- if B of A can't come to terms and they move it to JP Chase, whatever --
MR. SMITH: Or Harris or whatever.
MS. SCOTT: -- they'd probably have to move their entire banking relationship, I would imagine.
MR. SMITH: Most likely.
MS. SCOTT: So that's fairly disruptive to their company. Are they prepared to do that? Is that something --
MR. SMITH: I don't think they want to. We're really just trying to make sure we have a backup plan in case there's something really unpalatable about the terms B of A requires on the tax credit side.
MS. SCOTT: There have been no other conversations with other banks? They're not shopping it to get --
MR. SMITH: No.
MS. SCOTT: -- best terms or -- okay.

ALDERMAN TUNNEY: But they're refinancing existing debt as part of this, so ...

MS. SCOTT: Yeah. Well, they probably have to.

ALDERMAN TUNNEY: Well, it'll be interesting to see if there's some competition. A lot of these companies, the banks have gotten so big. You know, B of A used to be LaSalle. So we knew LaSalle. We don't know -- we don't have a relationship.

MS. SCOTT: Right.

ALDERMAN TUNNEY: So you talk about business. I think you're seeing more of that flow because the big banks are getting too big, and they're just -- they don't have that kind of relationships that may have originally started.

MS. SCOTT: How did this come to CDF?

ALDERMAN AUSTIN: Why we're not working with smaller banks?

MR. SMITH: We work with whoever will do the deal. In this case -- and this answers Lois' question as well. B of A actually brought the deal to CDF because they didn't have tax credits available from their own allocation to serve this transaction. But they wanted to help the company

and thought it would be a good fit, and we agreed.

MS. SCOTT: And how many banks have we worked with at this point?

MR. SMITH: Investment side, Chase, US Bank, Northern Trust, and PNC.

MS. SCOTT: I thought we did an MB as well.

MR. SMITH: On the debt side, yeah. MB -- we're actually talking to MB about doing their first investment side deal; that's a couple meetings away probably from being ready for approval. But they're interested.

And then Harris and Private Bank on the debt side only. So far Harris and Private have not had appetite to buy the tax credit. It's definitely more the bigger institutions that actually want to put the equity side of the deal in. So we've had to sort of mix and match between local lenders and national tax credit investors for the most part.

MS. SCOTT: So five on the equity side and an additional three or four on the debt side?

MR. SMITH: Yes.

ALDERMAN TUNNEY: Tell me about -- because it's another intriguing aspect of the owner-

occupied valuations and where there might need to be future capital based on this. Tell me a little bit more about that.

MR. SMITH: So we saw this, for example, in the Truong Enterprises deal where they were building a $10 million facility. It appraised out at something like $7 million. The issue being it's very purpose built, it's very configured to that specific end user, and the appraiser has to think about if that end user went bankrupt and there was a, you know, disposition sale, what's the generic end user going to pay for it. And so they apply a discount, particularly in this recession real estate climate, for that issue.

And so in turn, banks typically have pretty strict lending limits that keep them below 80 or 75 percent of appraised value no matter what.

ALDERMAN TUNNEY: So that's the Truong. What about this one?

MR. SMITH: So similar issue here. We don't know what the appraisal's going to come in at, but we strongly suspect it'll come in, you know, maybe 75 percent of cost or so. That's what we've been seeing. And so New Markets --

ALDERMAN TUNNEY: When I look at this refinancing, that's the problem. You know, when we refinance, your appraisals are not coming out to value, you know, and so you have a combination of trying to get lower interest rates and yet the appraisals are not substantiating their equity.

MS. SCOTT: My guess is the refinancing is --

ALDERMAN TUNNEY: And so we don't have enough -- you don't have enough equity. We need more equity from you to refinance the loan at a more reasonable rate. So that's the interesting crux we have, and that's why I wanted to kind of explain that a little bit further.

MR. SMITH: Sure.

MS. SCOTT: But the refinancing, I think, probably relates to the flow of funds so that you don't have different disparate loan agreements. So it's probably an integration of both to make sure that they actually hang together, which is pretty common when you're doing it.

MR. SMITH: Yeah, I think they have a small loan currently secured by the property that's also coming due shortly, and so it just makes sense to roll it all together.

MS. SCOTT: Right, and have a single loan agreement.

ALDERMAN TUNNEY: Which is that 550.

MR. SMITH: Correct.

MS. SCOTT: That would make sense.

MR. SMITH: But New Markets is actually particularly well designed to deal with that issue because the tax credit equity sort of layers on top of the normal debt in the structure, and CDF doesn't have to worry about loan to value essentially. It can just worry about is there enough cash flow to service the loan, if the company looks viable for the next seven years plus. So that's actually kind of the legislative intent of the program. It's worked well in the recession actually.

CHAIRMAN MOONEY: Let me call the question.

Is there a motion to approve the investment in SCR?

ALDERMAN TUNNEY: Motion.

CHAIRMAN MOONEY: Moved.

ALDERMAN AUSTIN: Second.

CHAIRMAN MOONEY: Seconded.

All those in favor say aye.

(Chorus of ayes.)

Thank you.

We have one other matter that -- I'm sorry. We have, before we get to that, the prefunding for ACE Solar.

MR. SMITH: Sure.

So this is a question for the board essentially related to competitiveness for CDF. There's an arms race among CDEs out there in terms of getting your credits out quickly and positioning yourself for another award and another award that's of a decent size. And so deployment rates of the tax credits do matter in this discussion.

So we -- the ACE Solar transaction is moving along well towards closing, but it's not closed yet. Probably by year end is a reasonable projection. There may be a meaningful competitive benefit for CDF to prefund that transaction to the tune of 6-1/4 million during the month of November because we have indications from Treasury that they're going to take a look at CDEs' deployment progress roughly the first week of December, and that'll help them make their decisions about who gets credits and how much.

So we wanted to ask the board if it was willing to think about flexibility to do that, prefunding in November, if it seems like it's prudent competitively for CDF to do that.

MS. SCOTT: So if we go back to this page on the benchmarks --

MR. SMITH: Yes.

MS. SCOTT: -- that we need to meet?

MR. SMITH: This is the minimum thresholds.

MS. SCOTT: Right. So where would it put us?

MR. SMITH: So that would put us -- gosh. It would be all ninth round credits. So that's -- it would be roughly another 10 percent of the ninth round allocation.

MS. SCOTT: To get to 53 percent.

MR. SMITH: Yeah.

MS. SCOTT: What are the issues on the closing that are delaying the closing?

MR. SMITH: Well, the main issue is that there's 12 existing properties that would be receiving rooftop solar installations. Each of those 12 properties has a lender, including the City of Chicago, actually, for a couple of the buildings.

Those lenders need to sign non-disturbance agreements saying, you know, if we foreclose on this rental housing building, we won't take the solar equipment too; we'll continue to grant access to ACE to get to the equipment. So it's essentially inter-creditor transactions between the New Markets transaction and those real estate lenders. And that's a lot of different signatures and a lot of different explanations that ACE has been having to go through. It's going well, but it's taking some time.

MS. SANCHEZ: Mostly we're waiting for our own law department to tell us whether we --

MS. SCOTT: Can do it.

MS. SANCHEZ: -- we're going to need a Council action to do it. We're hoping we don't, but we're actually still awaiting to hear back from the law department to find out if we do.

MR. SMITH: I think I -- these folks told me the other day that they heard that they do not, but -- I'm hoping they're not just making that up.

MS. SANCHEZ: I know staff was still working with the different attorneys.

CHAIRMAN MOONEY: What's the risk to CDF if

we do the prefunding?

MR. SMITH: So in a prefunding situation, you receive temporary capital from the New Markets investor, you sign an unwind agreement. What that says is that if the capital is not deployed to a qualified project within a one-year period, the investor can either -- they can take their ball and go home essentially. And so that means that that 6 million of allocation would be gone forever. It's probably a significant black eye for CDF. So the ramifications would be serious.

In general -- and there's never been a recapture in the tax credit program. What investors tend to do in this situation is work very closely with the CDE to find a replacement deal if the primary project doesn't close for some reason.

CHAIRMAN MOONEY: So we could substitute another deal?

MR. SMITH: We could. Absolutely. That would be plan -- plan A would be to substitute rather than unwind.

MS. SANCHEZ: And we have approximately a year to find another project, correct?

MR. SMITH: Yes, 12 months.

MS. SANCHEZ: So we have a year to find another project to invest --

MS. SCOTT: We have couple hundred million dollar pipeline. That doesn't seem like a significant risk.

But I don't want the Fund to get a giant black eye if they can't close and make sure that we're not harming ourselves for the next round.

MR. SMITH: Right.

So the -- so to contrast with the Shops and Lofts deal, that was needed to stay eligible for this application round. Prefunding ACE would be a bit more aggressive essentially to be a bit more competitive for future credits in the next round. So it's definitely optional. It's kind of more about the board's risk tolerance and a desire to be maximally competitive.

MS. SCOTT: So we're 50 percent ahead of where they -- the minimum, right?

MR. SMITH: Um-hmm.

MS. SCOTT: And is that -- I mean, how stellar is that performance if you were to look at other entities? Is that average? Is it below

average?

MR. SMITH: It's really fantastic for a municipal CDE. For a national CDE, many of the topflight CDEs that have a national geography have either fully deployed their most recent allocation or they're, you know, 70-plus percent through that with deals in closing for the balance of their credits. But a local CDE, you really can't match that deployment rate without compromising on the quality of the deals.

So we're trying to strike a balance between being a fast deployer, but also being, you know, true to the mission.

MR. LEON: Can I ask a question?

CHAIRMAN MOONEY: Sure. Rafael.

MR. LEÓN: This is the Hispanic housing transaction, right?

MR. SMITH: Yes.

MR. LEÓN: Do you have any other transactions that you can prefund? Because if I recall correctly, these are Low-Income Housing Tax Credits, and you will need the approval of the limited partners as well to enter into some kind of agreement. It's not just the lenders.

MR. SMITH: Right.

MR. LEÓN: And that may take some time.

MR. SMITH: That's -- I was oversimplifying it. Indeed, those limited partners are also part of the group that have been asked for their approval. And it's kind of on the same timeline as the lenders.

MR. LEÓN: Okay.

CHAIRMAN MOONEY: But Rafael asked you a question. Is there another project in the pipeline we could prefund?

MR. SMITH: I mean, there's nothing far enough along with -- you know, PNC committed as the investor. That would make -- I mean -- well, I guess to clarify, when you prefund a transaction, nothing legally ties those dollars to the transaction unless and until you close the full loan to the project. But really it's when you discuss prefunding with an investor, they like to have a deal that they have pending with you that's in documentation in mind when you do the prefunding.

So really ACE is the only transaction that we could conceivably prefund. In

some cases, CDEs take blind prefundings when they don't have an end deal in mind. That's really not recommended for a local CDE or a government-affiliated CDE. So really ACE would be the only option for CDF.

CHAIRMAN MOONEY: In your mind, how important would it be come December that we have the -- move up to the 53 percent? How many more points would it give?

MR. SMITH: I wish I knew. I mean, it's very hard to decipher what kind of formula the CDFI fund looks for. It's basically how much allocation they think you need. And it's based on reading your application, looking at your past track record, gut feeling kind of thing. That's the best indication we have.

But they have made it clear they look at QEI deployment. They don't track the deployment of the dollars down to the projects for this specific decision that they make. So prefunding is definitely something that they reaffirm that -- their scoring essentially takes that into account, prefunding.

MS. SCOTT: I'd be -- I guess over 50 percent

done is a -- it's certainly a nice round number when you're looking at something like that in the first year effectively of funding. I'd be favorably inclined to grant it given that we could find a substitute project within 12 months. It's a fairly long way with a $250 million pipeline backing it up.

MR. SMITH: PNC has a tremendous community reinvestment appetite in the City of Chicago. I mean, they're really eager to do more deals here. So I have a feeling that a substitute transaction could be located if needed.

CHAIRMAN MOONEY: Okay.

ALDERMAN TUNNEY: So tell me the worst case scenario.

MR. SMITH: So worst case scenario is that we get to -- you know, it's actually probably more like 18 months from the prefunding and haven't found a transaction because there's a six-month, one-time cure period that's available in the tax code. Nobody likes to rely on that, but ...

So 12 to 18 months after the prefund we haven't found a deal, the investor could either just take the allocation essentially and push money

down to whatever project they want, or they could unwind the qualified equity investment.

ALDERMAN TUNNEY: And, I'm sorry, Rafael, would you explain what your concern is?

MR. LEÓN: Sometimes getting approval from the limited partners in a low-income housing tax credit transaction takes some time. It's not just contacting any -- or one of the institutions and getting an approval. So that they have to consult with the limited partners. And there are a lot of banks and investors that get involved in that. So the question is whether they will do it efficiently and quickly. Sometimes they do, sometimes they don't.

MR. SMITH: That would definitely be one of the practical considerations before pulling the trigger on prefunding is making sure we had, you now, a detailed understanding of how far along those conversation are, how close they are to signing the document.

MR. LEÓN: And also make sure that it doesn't affect the tax credits.

MR. SMITH: The low-income housing tax credits?

MR. LEÓN: Yeah.

MR. SMITH: It wouldn't. I mean, there's no co-mingling of basis. And that's really the only restriction here in this. This is totally funded with non-LIHTC capital.

CHAIRMAN MOONEY: This one's not as clear to me as perhaps the others in part because of the caution that Rafael raised. And I'm -- I'm erring on the side of caution on this one, I think, more so. I like Lois' aggressive stance on this, but I think I'm a little cautious because we're dealing with six buildings and multiple parties. If it was one building and two or three parties, it would be a different matter. But I'm just a little worried about getting ourselves overcommitted.

So I think on this one, I would prefer to hold back. But I'll do whatever the board ...

MS. SCOTT: But let's explore that.

So we hold back, and at what point do we know whether they're going to close?

MR. SMITH: I mean, the closer you get to closing, the more certainty you feel. I think that we would certainly want to know the status of all

of those agreements with the existing investors and lenders. We would want to see documentation for the deal be, you know, 90-plus percent complete, no major business issues outstanding to be negotiated. It's really just a ministerial matter of getting closed, and that would be kind of our comfort threshold for doing this.

MS. SCOTT: So perhaps we need a little bit more information then to get to that comfort zone in terms of where they are.

CHAIRMAN MOONEY: Why don't -- if the board's comfortable with this, why don't we -- why don't you give conditional approval, and then I can -- our department can work with Tony and the others, and we'll just make sure.

MS. SCOTT: If it's not ready, you can --

CHAIRMAN MOONEY: If it's not ready, we'll hold back.

MS. SCOTT: Good idea.

MR. SMITH: Yeah, it's really just granting flexibility to the president to make that call.

CHAIRMAN MOONEY: Okay.

ALDERMAN TUNNEY: Noting your caution, I would support that.

CHAIRMAN MOONEY: Is that all right with you, Alderman Austin?
ALDERMAN AUSTIN: I'm sorry?
CHAIRMAN MOONEY: We were talking about conditional approval on this one.
ALDERMAN AUSTIN: Yes.
CHAIRMAN MOONEY: All right. Thank you, Tony. On the --
MR. SMITH: You need to vote.
ALDERMAN TUNNEY: Accept.
CHAIRMAN MOONEY: I'm sorry?
MR. SMITH: You need to vote.
CHAIRMAN MOONEY: Okay. I thought we had.
All those in favor of the conditional approval as I outlined, say aye.
(Chorus of ayes.)
Any opposed?
(No response.)
Okay. Thank you.
The last matter returns to a point that raised considerable discussion at our last board meeting. The discussion began, you'll recall, with an application by North Park University for a tax credit allocation toward a new

science building that they intended to build on their campus. Treasurer Neely raised the question, though, about the religious nature and employment issues -- employment policy issues of the university as related to the religious issue.

So at the direction of the board, we stepped back. We asked our law department to work with us to design a policy going forward, because, as you know, this matter has come up from time to time, but we haven't had a stated policy.

And we haven't given good direction to S.B. Friedman as to how to respond to applicants when they come in the door.

As we looked back at the practice of CDF, we looked particularly to the Kroc Center and the policy that emerged from that transaction as well as Christ the King and -- I'm missing -- oh, Swedish Covenant Hospital, and came up with the policy that is before you today.

You should have a copy of it. If you don't, I think Tony has extra copies here.

So the policy as stated here, which can also, of course, in the future be changed from time to time depending on further practice and

further experience, but at the moment this is largely based on the precedence that we have had prior to North Park.

I have discussed this and run it by the president at North Park University. They understand that this would likely prohibit them from their own perspective in pursuing the application. They will be able to do the project. They'll have to finance it in a -- either out of their pocket or with using some tax credits from another provider. But they are aware of it, and they understand the issues.

So I have discussed it with them in quite a bit of detail.

Tony, do you want to add anything?

MR. SMITH: I guess I can give a quick summary of the gist of the policy. I would say that for those that were on this body back during the Kroc Center approval, this is designed to sort of ratify the framework that was used there, kind of put it more into a policy that can be applied to future deals.

Basically, there's three components to the antidiscrimination policy. As a given, just

compliance with applicable law. That's just kind of just to get that out of the way.

But employment nondiscrimination -- so this policy relies on this concept of ministry positions. So, for example, in the Kroc Center transaction, the Salvation Army covenanted that no more than 20 percent of the employees in the facility would be ministry positions, meaning essentially that under First Amendment protections, they do have the right to discriminate broadly primarily based on religion, but anything that's tied to religion. So that can include sexual orientation, probably family structure, family status, issues like that. But that that -- the ability to discriminate on that basis will be limited to a defined percentage of the employees.

What this policy says is that CDF's board has to think that that percentage is reasonable for what the facility is, that it's not excessive.

And so I guess just to tie it back to the North Park transaction, essentially they would have had to define over 80 percent of their positions as ministry positions. It's based on how

the university likes to tie their educational mission to the religious grounding. And I would not anticipate that this board would think that's a proportion it can live with. So that's employment.

On the user perspective, generally CDF is funding facilities that are open to the public in some fashion. So the borrower must agree that the facility is open to all and not discriminate on usage rights based on any protected class as defined in the Chicago human rights ordinance. They can put limited operational guidelines that are consistently applied among all users without regard to protected class status; so things like no religious ceremonies other than the sponsoring denomination, no electioneering, no lobbying. So these are things that many 501(c)3s, regardless of religiously affiliated or not, will be very cautious about those issues on their facility.

So, again, that's something Salvation Army negotiated. They didn't want -- they didn't want to have to allow political events to happen on site, so they wanted to keep certain carveouts.

And then finally as far as -- no, I

guess those are the three. It's really the user population, the events on site, and the employment are really the three buckets that are covered here.

MS. SCOTT: I want to make really sure that we're being consistent with everyone. So Christ the King, is that boys only?

MR. SMITH: No, it's coed.

MS. SCOTT: All right.

ALDERMAN TUNNEY: So what is the recommendation? I mean, especially going back to the Swedish Covenant, so that makes that deal fall apart?

CHAIRMAN MOONEY: No, no. The North Park University.

ALDERMAN AUSTIN: North Park.

MR. SMITH: Swedish has --

ALDERMAN TUNNEY: Oh, the North Park?

CHAIRMAN MOONEY: Um-hmm. That -- most likely they would withdraw their application then as a result of this.

MS. SCOTT: It would have to be.

MS. SANCHEZ: Because they get -- with Salvation Army, 20 percent of their --

ALDERMAN TUNNEY: So how does that affect our performance?

CHAIRMAN MOONEY: We had not included them in the pipeline.

MR. SMITH: Right.

CHAIRMAN MOONEY: In view of what we expected to happen.

MS. SCOTT: It's a shame. But a good project in conflict with our core values. It's a shame. It really was an important neighborhood development.

CHAIRMAN MOONEY: Well, the project itself, I'm over 90 percent certain, is going to move ahead. In fact, I think they're already in for permitting. So it was -- this was a -- if you recall from the presentation, it would have either been New Market Tax Credits or out of their endowment or a substitute New Markets Tax Credit provider, which we also tried to help out on.

So the project itself will go ahead. It's just that, again, as you say, it's unfortunate that because of the way they define themselves versus the way we define our policy that it's unlikely that they would be able to apply and pass the policy.

MS. SCOTT: As I recall, this was a school that served predominantly first-time college

students in low-income areas, and it was going to -- if they use the endowment for it, they'll have less ability to provide scholarships to that population.

CHAIRMAN MOONEY: This is not a -- this is a Hobson's choice.

MS. SCOTT: It is a Hobson's choice.

MR. SMITH: They -- yeah. And they would have passed the user test with flying colors. In other words, they don't discriminate on their admissions policy. So it's primarily the employment issue where they were just really not structurally compatible with this.

CHAIRMAN MOONEY: One of the reasons, of course, for having this policy is that as applicants come in the door, we want them to be aware at the very beginning rather than at the end, and so this would provide us with a screen.

MS. SCOTT: And they're one, I was going to say, they found out at the end.

CHAIRMAN MOONEY: And they did.

ALDERMAN AUSTIN: It's not going backwards, though; it's just only going forward?

CHAIRMAN MOONEY: Going forward.

MS. SANCHEZ: And just so we have a written policy in our framework of operations. If anybody asks us, we can just give this to them. So, you know, from the minute they start the conversation with us, we can clearly tell them this is our policy instead of having --

ALDERMAN TUNNEY: So it has to be a reasonable percentage.

MS. SANCHEZ: Right.

ALDERMAN TUNNEY: And not whatever is reasonable to them.

ALDERMAN AUSTIN: The majority --

CHAIRMAN MOONEY: Right.

MR. SMITH: That's where the board's discretion really comes in, is you look at the ministry positions versus non-ministry and decide if you think that the community benefit is broad enough and significant enough that it outweighs the employment -- the discrimination rights that they have on certain employment.

CHAIRMAN MOONEY: Any further discussion?

ALDERMAN TUNNEY: So we -- the motion is to adopt this?

CHAIRMAN MOONEY: Correct.

ALDERMAN AUSTIN: Yes. So moved.

ALDERMAN TUNNEY: Second.

CHAIRMAN MOONEY: Moved and seconded. All in favor say aye.

(Chorus of ayes.)

Thank you.

I failed to thank Rafael León for chairing the advisory committee. And I believe that you were perfectly happy with SCR, the transaction, if I remember right.

MR. LEÓN: Yes.

CHAIRMAN MOONEY: I'm sorry, I forgot to ask you over my shoulder when we went through that.

No other business I don't think. Then motion to adjourn.

ALDERMAN TUNNEY: So move.

MS. SCOTT: So move.

CHAIRMAN MOONEY: All those in favor say aye.

(Chorus of ayes.)

Thank you all.

(Which were all the proceedings had this day.)

STATE OF ILLINOIS)
) SS:
COUNTY OF COOK)

I, Nick D. Bowen, a Certified Shorthand Reporter in and for the County of Cook and State of Illinois, do hereby certify that I reported in shorthand the proceedings of said hearing as appears from my stenographic notes so taken and transcribed under my direction.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Chicago, Illinois, this 12th day of December 2012.

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